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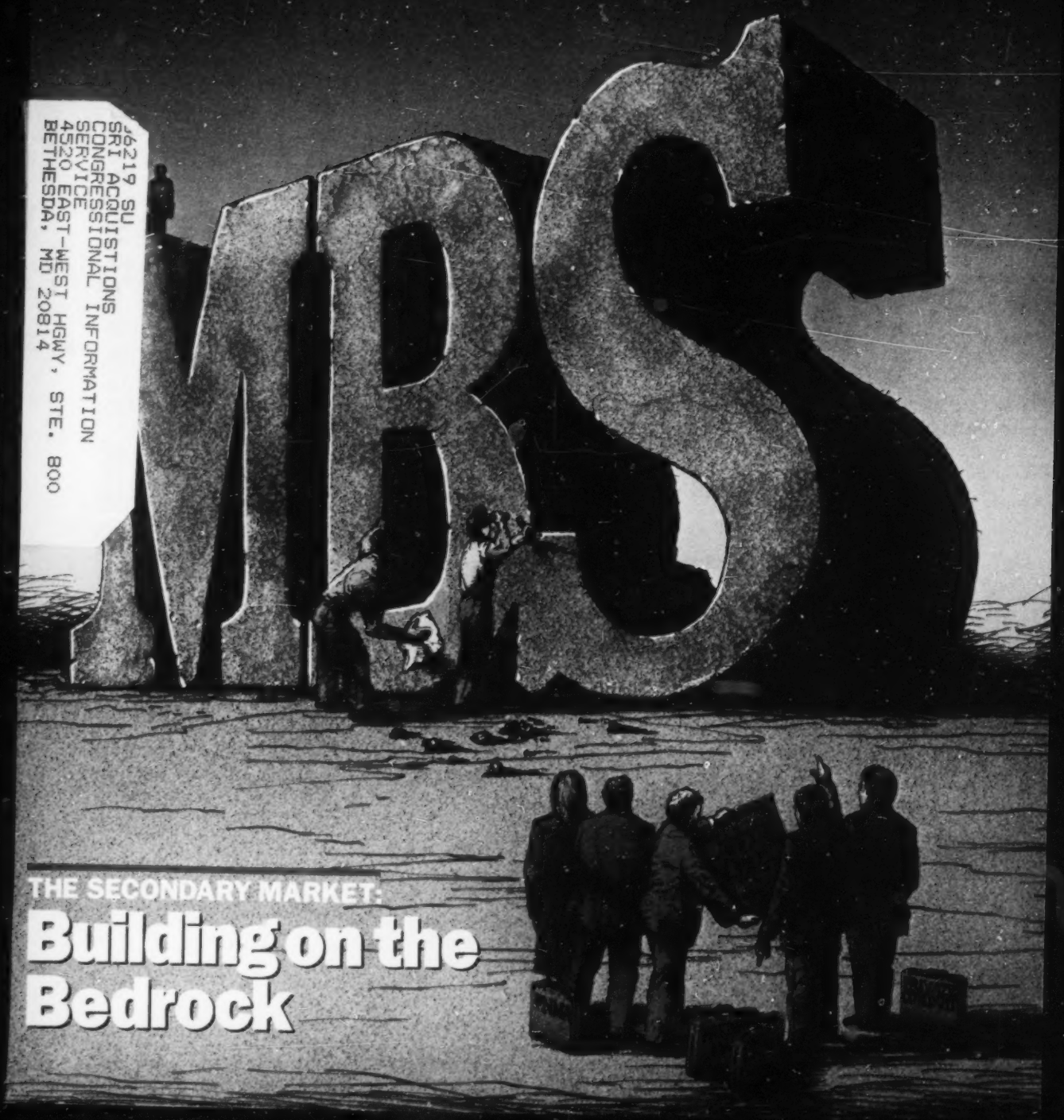
MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE

APRIL 1988



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THE SECONDARY MARKET:
Building on the Bedrock

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APRIL 1988 VOLUME 48 NUMBER 7

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PORTFOLIO

Starting with this issue, we plan to use this space to talk to our readers about the contents of *Mortgage Banking*, as well as other items of interest about our profession and our industry that arise from time to time.

Many of our articles this month are devoted to the secondary market—that vast economic mechanism that is anything but secondary to any mortgage banker. Exciting things are happening, each holding promise for the future of our industry.

We begin with a roundtable on ARM securitization and derivatives, and then we look at the Chicago Board of Trade's plans to introduce MBS futures and, of special interest to mortgage bankers, futures options. The latter subject is dealt with in two articles, one by Ralph Palazola and in the secondary market column by MBA's Michelle Campbell.

Computers are playing evermore important roles in our business, and we have looked at them in two pieces by Jon Holm and Tom LaMalfa, and Patrick Boulay. They show how new software is getting more out of the personal computer on the mortgage banker's desk, as well as how strategy planning can be helped by the machine.

Elsewhere in this issue, we talk about the intricacies of multifamily coinsurance, and what mortgage bankers can do to scrutinize applications to minimize the risk of loans that go bad.

It is also my pleasure this month to introduce *Mortgage Banking's* new editor. He is John S. DeMott, who comes to us from New York City, where he spent two decades writing about the economy and business for *Newsweek*, *Institutional Investor* and, for the last 13 years, *Time*. John knows a great deal about how magazines are put together and how we can sharpen our editorial content, focusing it on the issues of greatest concern to our readers. We look forward to drawing on each other's expertise to make *Mortgage Banking* even better than it is now.

DeMOTT

Our cover illustrator this month is Michael Gibbs, a freelancer based in Washington, D.C., whose work has appeared in several publications in the nation's capital, including *The Washington Post*.

Warren Lasko
Executive Vice President

Coming in
MAY

AFFORDABILITY

Why many people born when Levittown was born 40 years ago cannot afford to buy houses there now, and what that means to mortgage banking and the single-family housing market.

MORTGAGE BANKING
THE MAGAZINE OF REAL ESTATE FINANCE

VOLUME 48 NUMBER 7

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual Total	Actual 1-4 Units	Actual 5+ Units	Seasonally Adjusted Annual Rates Total	Seasonally Adjusted Annual Rates 1-4 Units	Seasonally Adjusted Annual Rates 5+ Units	PERMITS 17,000 ISSUING PLACES: Actual Total	Actual 1-4 Units	Actual 5+ Units	Seasonally Adjusted Annual Rates Total	Seasonally Adjusted Annual Rates 1-4 Units	Seasonally Adjusted Annual Rates 5+ Units
1987												
AUG	143	106	37	1,583	1,167	416	129	96	33	1,502	1,106	396
SEP	152	113	39	1,679	1,260	419	137	95	42	1,502	1,072	430
OCT	139	102	37	1,538	1,172	366	125	91	34	1,463	1,056	407
NOV	119	84	35	1,631	1,150	481	101	72	29	1,469	1,065	404
DEC	86	65	21	1,404	1,090	314	94	67	27	1,361	1,055	306
JAN$_p$	**79**	**60**	**19**	**1,377**	**1,062**	**315**	**70**	**54**	**16**	**1,250**	**982**	**268**
1987 TOTAL	1,617	1,209	408				1,537	1,120	417			
1986 TOTAL	1,804	1,263	542				1,769	1,185	584			
1 MONTH												
1988	79	60	19				70	54	16			
1987	105	74	31				98	67	31			
1986	116	79	37				119	74	45			
1985	105	66	39				104	64	40			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual North East	Actual Mid-West	Actual South	Actual West	Seasonally Adjusted Annual Rates North East	Seasonally Adjusted Annual Rates Mid-West	Seasonally Adjusted Annual Rates South	Seasonally Adjusted Annual Rates West	PERMITS 17,000 ISSUING PLACES: Actual North East	Actual Mid-West	Actual South	Actual West	Seasonally Adjusted Annual Rates North East	Seasonally Adjusted Annual Rates Mid-West	Seasonally Adjusted Annual Rates South	Seasonally Adjusted Annual Rates West
1987																
AUG	27	28	53	36	249	274	639	421	23	24	48	33	257	250	606	389
SEP	25	31	61	36	255	309	695	420	25	29	49	34	247	284	576	395
OCT	25	25	54	35	254	251	621	411	23	27	45	29	248	286	561	368
NOV	22	25	45	27	269	313	648	431	20	20	37	24	276	275	537	381
DEC	13	14	36	22	228	285	566	325	18	14	35	26	259	246	485	371
JAN$_p$	**14**	**8**	**32**	**25**	**291**	**223**	**469**	**394**	**13**	**9**	**28**	**21**	**270**	**232**	**414**	**334**
1987 TOTAL	269	298	634	420					274	285	578	402				
1986 TOTAL	294	296	733	483					283	290	687	510				
1 MONTH																
1988	14	8	32	25					13	9	28	21				
1987	16	16	44	29					14	14	41	29				
1986	14	10	62	29					14	12	58	34				
1985	10	8	56	32					13	8	53	31				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1] Sold	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1987														
AUG	317	56	361	6.6	228.3	114.4	23.8	90.1	1,049	672	377	152	107	45
SEP	294	52	364	6.9	229.2	116.5	23.5	89.2	1,052	676	376	144	110	34
OCT	301	52	365	6.6	230.7	117.4	23.6	89.7	1,049	675	374	149	114	35
NOV	241	44	364	7.0	237.8	118.6	23.9	95.3	1,050	672	378	129	97	32
DEC	220	38	368	7.6	236.2	118.2	25.1	92.9	1,030	665	365	151	109	42
JAN$_p$	**188**	**39**	**367**	**8.5**	**229.9**	**115.5**	**23.5**	**90.9**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
1987 TOTAL	3,520	674										1,665	1,192	473
1986 TOTAL	3,565	750										1,756	1,206	550
1 MONTH														
1988	188	39										N.A.	N.A.	N.A.
1987	216	53										137	91	46
1986	213	55										122	81	41
1985	190	48										119	84	35

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.
1987										
MAY	$63,448	$13,305	$21,157	$26,[illegible]	$2,774	$46,949	$13,013	$18,107	$15,695	$134
JUN	65,219	10,121	23,453	28,840	2,805	46,706	9,609	19,489	17,278	330
JUL	57,805	8,182	19,808	26,869	2,946	39,571	7,806	16,741	14,652	372
AUG	47,289	6,760	16,746	20,747	3,036	32,592	6,558	14,192	11,598	244
SEP	48,467	7,526	16,761	21,072	3,108	31,318	7,070	13,595	10,463	190
OCT$_p$	**47,839**	**7,387**	**16,719**	**20,149**	**3,584**	**30,256**	**6,819**	**13,647**	**9,574**	**216**
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1985 TOTAL	362,128	69,156	145,372	119,616	27,983	238,386	63,296	109,276	64,508	1,306
10 MONTHS										
1987	543,670	102,901	180,033	233,734	27,002	384,159	98,061	150,206	133,019	2,873
1986	499,131	115,566	174,666	182,165	26,734	362,097	106,344	143,141	109,507	3,105
1985	292,931	56,675	117,090	99,836	19,330	197,517	52,300	89,828	54,570	819
1984	251,599	42,968	109,644	86,723	12,264	169,478	40,172	82,828	45,776	702

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS Total	Mtg. Bankers[1]	S&Ls	Banks[2]	Life Cos.	NONRESIDENTIAL Total	Mtg. Bankers[1]	S&Ls	Banks[2]	Life Cos.
1987										
MAY	$2,771	$60	$1,570	$807	$334	$13,728	$232	$1,480	$9,710	$2,306
JUN	3,768	284	2,028	1,164	292	14,745	228	1,936	10,398	2,183
JUL	3,177	236	1,502	1,053	386	15,060	140	1,565	11,164	2,188
AUG	2,467	80	1,376	772	239	12,230	122	1,178	8,377	2,553
SEP	2,608	236	1,420	574	378	14,541	220	1,746	10,035	2,540
OCT$_p$	**2,885**	**383**	**1,495**	**641**	**366**	**14,698**	**185**	**1,577**	**9,934**	**3,002**
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1985 TOTAL	26,498	2,746	15,612	5,368	2,772	97,244	3,114	20,485	49,740	23,905
10 MONTHS										
1987	29,860	2,161	14,711	10,146	2,842	129,651	2,679	15,116	90,569	21,287
1986	30,848	6,063	14,711	7,237	2,837	106,186	3,159	16,814	65,421	20,792
1985	20,440	1,939	11,268	5,434	1,799	74,974	2,436	15,994	39,832	16,712
1984	16,474	401	10,574	4,576	923	65,647	2,395	16,242	36,371	10,639

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH Total	Mtg. Bankers[1]	S&Ls	Banks[2]	Life Cos.	OUTSTANDING Total	Mtg. Bankers[1]	S&Ls	Banks[2]	Life Cos.
1987										
MAY	$53,969	$11,302	$24,203	$14,730	$3,734	$151,196	$22,151	$57,828	$53,199	$18,018
JUN	47,463	6,429	24,594	13,836	2,604	139,189	14,507	56,330	51,138	17,214
JUL	37,430	5,600	20,620	7,849	3,365	142,544	13,490	53,857	57,754	17,443
AUG	33,902	5,713	19,056	7,203	1,930	130,911	13,206	53,644	46,601	17,460
SEP	37,020	7,705	18,912	8,374	2,029	130,901	15,834	50,892	47,917	16,258
OCT$_p$	**39,620**	**10,964**	**18,768**	**7,205**	**2,683**	**125,952**	**13,150**	**50,143**	**46,484**	**16,175**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
10 MONTHS										
1987	416,727	89,023	204,442	96,226	27,036					
1986	451,420	107,184	195,256	116,574	32,406					
1985	265,301	46,861	141,907	50,536	25,997					
1984	218,009	38,063	123,763	39,938	16,245					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units) Total	FHA[3]	VA	Private	LOANS INSURED Total Units	Total Amt.	FHA Units	FHA Amt.	VA Units	VA Amt.	Private Units	Private Amt.
1987												
AUG	166	77	32	57	225	$15,678	142	$8,902	37	$2,819	46	$3,957
SEP	148	68	26	54	175	12,437	99	6,180	33	2,488	43	3,769
OCT	138	56	24	58	108	10,744	79	4,816	29	2,183	42	3,745
NOV	119	49	21	49	679	9,272	67	4,093	26	1,883	38	3,296
DEC	108	48	16	44	122	8,633	66	3,987	21	1,511	35	3,135
JAN$_p$	**113**	**58**	**16**	**39**	**117**	**8,018**	**74**	**4,453**	**16**	**1,143**	**27**	**2,422**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
1 MONTH												
1988	113	58	16	39	117	8,018	74	4,453	16	1,143	27	2,422
1987	204	120	38	46	175	12,142	95	5,864	38	2,717	42	3,561
1986	199	130	19	50	118	7,791	53	3,151	19	1,305	46	3,335
1985	137	56	11	70	99	6,345	26	1,497	11	723	62	4,125

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
AUG	$2,276	$1,613	$127,881	$3,997	$4,462	$4,452	$5,031	$4,721	$6,533	$8,245
SEP	1,842	1,743	130,540	4,083	3,663	2,917	4,297	4,158	16,472	6,499
OCT	1,566	1,278	133,102	3,819	2,713	7,882	3,078	3,111	1,910	5,362
NOV	2,899	1,297	134,633	2,702	2,408	4,271	2,979	2,742	4,634	4,670
DEC	3,115	3,747	139,960	6,374	n.a.	n.a.	n.a.	n.a.	3,645	4,985
JAN$_p$	**2,254**	**1,267**	**140,522**	**1,683**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**1,661**	**3,919**
1987 TOTAL	25,415	20,531	—	63,230	n.a.	n.a.	n.a.	n.a.	116,720	98,300
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
1 MONTH										
1988	2,254	1,267	—	1,683	n.a.	n.a.	n.a.	n.a.	1,661	3,913
1987	948	1,346	—	6,363	7,455	8,003	7,950	8,215	13,932	10,624
1986	1,315	1,188	—	3,964	4,880	5,305	3,709	3,300	10,103	5,298
1985	1,300	1,943	—	913	3,030	4,269	2,197	1,984	4,573	2,654

*Year-to-date totals for FHLMC are for ten months only.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
AUG	10.55%	10.37%	10.38%	9.38%	9.40%	8.91%	10.007%
SEP	11.22	10.86	10.87	9.37	9.25	9.43	10.643
OCT	10.90	10.84	10.87	9.25	9.22	9.71	11.030
NOV	10.76	10.59	10.58	9.30	9.25	9.06	10.345
DEC	10.63	10.52	10.52	9.15	9.20	10.15	9.613
JAN$_p$	**10.17**	**10.09**	**10.10**	**9.13**	**9.25**	**8.93**	**10.010**

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
SEP	10.43%	10.29%	10.25%	10.84%	9.42%	6.64%	7.37%
OCT	10.64	10.61	10.57	11.07	9.52	6.69	7.89
NOV	10.03	9.86	9.82	10.39	8.86	6.19	7.17
DEC	10.04	9.96	9.92	10.42	8.99	6.36	7.61
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	**9.29**	**9.27**	**9.23**	**9.75**	**8.21**	**5.93**	**6.58**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
SEP	38	101	87	83
OCT	−17	112	109	105
NOV	37	117	100	96
DEC	21	105	97	93
JAN	12	123	111	101
FEB	**n.a.**	**108**	**106**	**102**

NA—Not available. p—Preliminary.
[1] From the National Association of Realtors "Existing Home Sales" series.
[2] Mutual Savings Banks and Commercial Banks.
[3] FHA applications received includes the Direct Endorsement Program starting in 1984.
[4] Secondary market gross yields.
[5] Federal Home Loan Mortgage Corp. Existing Construction only.
[6] Securities for 0 to 30 day delivery.
[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.
[8] Year-to-date seasonally adjusted series not calculated.
[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.